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Identify The Determinants Of Corporate Social Responsibility And Its Impact On Financial Performance

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Abstract

Corporate Social Responsibility (CSR) concept is organization's commitment to meet the needs and demands of society. Determinants of social responsibility by studying the relevant literature, three main approaches are considered which include: a stakeholder management view, the Industrial Organizational Economics View and Resource-Based view of the firm. In this study with examining three approaches, the determinants of social responsibility with respect to the component concentration, capital intensity, size of industry, number of shareholders and size of the company were studied .The results indicated a significant effect on the financial performance of the organization's social responsibility and risk. The other results can be negative effects of concentration and the positive effect of capital intensity, size of industry and company size on the social responsibility. The results also explain the lack of significant effect on social responsibility by number of shareholders.

Key words: social responsibility, stakeholder management, industrial organization approach, resource-based approach

INTRODUCTION

There are different views about the legitimacy and value of adopting the principles of social responsibility by companies.

Some experts believe that social problems should be solved by governments. They believe that the organizational resources are not sufficient to solve social problems and organizational resources should not be wasted in order to solve social problems.Another group of experts believe that although governments are responsible for solving society's problems, but participation of organizations in this field is needed. These experts believe that, since economic power now has shifted from government to enterprises, organizations involvement is essential in solving social problems (Ibid, 5, quoted Saghafi, 1387, p 2).

In other words, some senior managers believe that participating insocialaffairsis one ofthegovernmenttasks andparticipationinsocial activitiesreducesthe financial performance and is extra costfor organization. But some otherexecutivesbelieve thatparticipating in socialactivities, raising the company'sreputationwillimprovefinancial performance.

Despite the passage of more than 50 years of being raised and the remarkable growth of social responsibility debate in recent decades and raised the issue as one of the important topics of scientific studies and trade, and even politics, there is no enough attention to the reasons of tendency of some companies to the social responsibilities. In circumstances that most studies related to this thread concentrate on connection between social responsibility and financial performance of the companies and identify the scope of activities associated with the social responsibility which has a significant impact on the performance of the companies. According tostudies(Margolis and Walsh)conductedin 2003revealed that in only0.15 of studies in theinterval1972to 2002the issueof socialresponsibilityisconsideredas the dependent variable, which indicates the lack of attention toidentifyingit'srelated factors(Campbell, 964: 2007).

Given the above, in addition to the contradiction between the views of existing research regarding the impact of social responsibility on financial performance, to identify factors affecting the tendency of organizations to social responsibilities will be studied.

THEORETICAL FRAMEWORK

Social responsibility and moral values clearly by pioneering the concept of strategy in 1960 was considered. Including(Igor Ansoff) (1965)in thebook "Corporate Strategy" referstothenon-economic goals effective inthe company'sgoals. Non-economic personal goals which heexplainsIncludealtruism, personalethics, social responsibility andsocialdignity.Also (Kenneth Andrews) (1971) discuss the elements of strategy, commitments to different parts of society other than the shareholders named one of the four elements forming strategy and states that: "Companies should follow the values of senior managers and social issues and what they consider to be social and moral leaders (social responsibility) ". (Domènec& Manuel, 2006, p53)

ThusRobbinsandCoulter(2006) argue thatCSR of companiesisabouttwomainapproaches: the firstapproach is "classical approach". According to thisapproach, the onlysocial responsibilityof managementisprofitmaximization. The most famousproponentof thisapproach is theNobel economist, (Freedman, M) (1970). He believes that "any commercial organization, only and only has a social responsibility which consist of the use of resources in activities and have been designed to increase profits and wealth of shareholders." From the (Freedman, M) view, ethics and social responsibility of the company is increasing profits observe the rules of free competition without cheating and deceiving others. Adherentsof thisapproachbelieve thateverytimemanagementdecidestospendresourcesfor thewelfare ofthe communitywillimposeadditional coststo thecompany.Finally these coststransferred to customers through pricesof goodsandservices increasing or will suffer shareholders through lowerdividends.

The secondapproach is "The Socio economic View ". In this approach management social responsibility is something beyond maximizing profitand includes protectingan dimprovingt hewelfareof society. This approach is based on the belief that organizations are not independent entities and there are not only responsible for their shareholders. They also have responsibilities about the community because this community allows the formation of them through rules and regulations and support them via purchasing their goods and services (Robbins & Coulter, 2006, p 117, quoted by Saqafian, 2006, p. 20).

Perhaps one of the first issues about the factors influencing the tendency of companies to take on social responsibility rose in discussions of the fans of "Management of stakeholders view". Management of stakeholders view emphasizes on the formulation and implementation of organizational policies and activities in order to achieve the desired goals of all stakeholders (Poset and Preston, 2002: 9).

In this context, in decade 80 having regard to the interests of all groups in the companies was proposed.(Frieman) (1984) in his book "Strategic management: a stakeholder approach", defined stakeholder as "any individual or group to achieve goals that could affect or be affected" is (Domènec and Manuel, 2006: 56). In summary, according to this view, management should have attention to the legitimate interests of all stakeholders and it is required to have balance between the interests of the numerous stakeholders and not just the interests of the company's shareholders.

Thesecondapproachindetermining thefactors affectingthe levelofcorporateresponsibility is "industrialorganization view". Inthisapproach corporate socialresponsibilityis consideredexclusivelyasa tool formaximizingthe value. Thisattitudeis equivalent to the idea(Frieman) (1984)which states that"the company must actsolelyin the interestof its stakeholders", (Poset and Preston, 2002: 11). In this approach, company performance is affected by outside of the organization and in particular industry and its structure.

The thirdviewis recognized as "company resource-based view".This view was raised in the Decade of 90 when it seemed the resources and facilities of companies are key element of success in institutions. This viewisexpressedthatassessingthe attractivenessofanindustry without regarding the sourceswhich companybringstotheindustryis impossible.

Resource-based viewthat isnowwidelyacceptedexpress thatthecompany's abilityinabetter performance thanits competitorsdepends to human,physicaland organizationalresourcesinteractat all times.This issue, company high-performance dependent on three factors above is also true about the social responsibility. In other words, based on the above view the interplay between human being, physical and organizational resources at all-time brings high social performance for organization (Domènec and Manuel, 2006: 64).

(Weber Manuela)(2008) show that social responsibility has positive impact on the image and reputation of the company, positive impact on motivation, retention and recruitment of employees, saving costs, increased revenue from higher sales and higher market share and risk management.

Other studies in this regard are presented in table 1.

(Campbell) (2007) has identified the effect of variables such as financial performance, environmental health, economic, competitive, strong statement, system and industry, with proper organization, supervision of private and independent organizations such as NGO's, membership in trade and workers' unions and the level of the company's relationships with stakeholders on the level of corporate social responsibility.In the same area (zu and song) (2008) considered size of the company, type of ownership, type of product manufactured by the company and regional economic and social situation of the company are located impact on social responsibility level.In Table 2, some of the studies done in relation with the identification of determinants of social responsibility are presented.

By studying the relationship between social responsibility and financial performance of companies active in the pharmaceutical industry (H. Saghafian) (2008) found that that there is not the linear relationship between two variables.

Table 1. work done in connection with the results of the social responsibility

Effects expressed	Research date and researcher	Type of research

1. Benefits from efficiency 2. Creating differentiation 3. Tax gains 4. Financial interests. 5. Risk reduction	Schaltegger&Figge (2000)	Theoretical
1. Risk management 2. Gains from performance 3. Improve relationships with legislators. 4. Brand value improvement. 5. Improve the efficiency of employees 6. reducing the cost of capital	Heal (2005)	Theoretical with case study
1. Market development 2. Reduce costs 3. Maintain market share 4. Survive long-term	Kong et al. (2002)	Case study
1. Improvement of company's reputation with positive impact of customer retention and acquisition 2. Increase recruiting, employee retention and motivation 3. Capital increase.4. Permission for the production of 5. Risk management 6. Positive impact on stock prices 7. Cost reduction	Hansen (2004)	Empirical Study
1. Being away of Negative pressures, negative effects of sanctions of customers and the markets. 2. Motivation of employees 3. Improving the image and reputation of company 4. Positive impact on the company's relationship with legislators and stakeholders 5. Gains from efficiency and cut costs 6. Capital increase 7. increase market share	Epstein & Roy (2001)	Empirical quantitative research

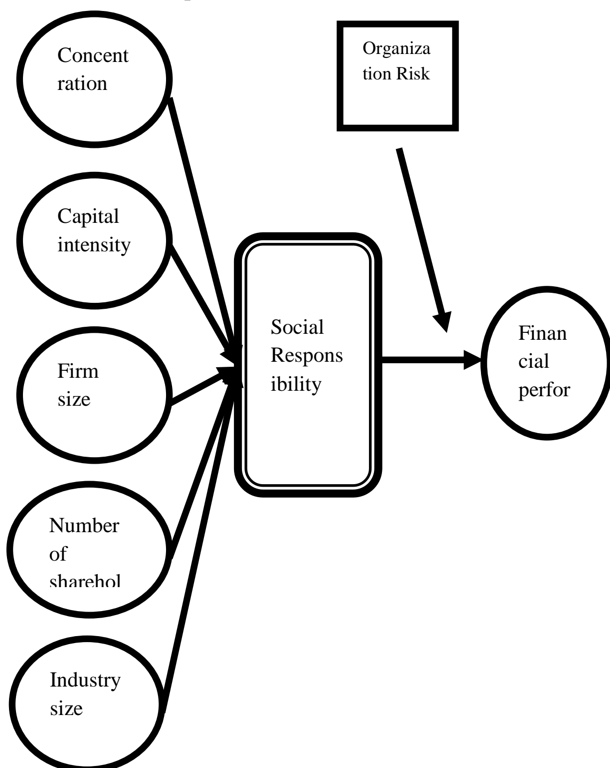
Evaluated variables	The main theory	Research date and researcher
Financial performance, the size of the Organization, the extent of competition, the amount of the statement being strong, rules codified and the protection of shareholders ' rights, the extent of the relationship with the unions and the management perspective in the company.	A stakeholder management approach, the Industrial Organizational approach and Resource-Based approach	Hsiang-Lin, et al. (2003-2005)
Stakeholders (institutional, community, legal and media), Government and existing controls for monitoring the activities of institutions..	A stakeholder management approach .	Taghian(2007)
The social/political nature of the place where the Bank is active (subject to the rights of citizenship and political freedoms and country's population) and the hierarchy of power (the number of the current group members, number of members between banks and the quality of training given to employees).	Resource-Based approach, Theory of political/economic considerations ، theory of legitimacyAnd stakeholders management.	Farook (2005)

Table 2: Foreign studies about predictors of CSR

METHODS OF RESEARCH

This study aimed to identify the determinants of social responsibility and the impact on the financial performance of production companies accepted at the Tehran stock exchange. According totheory, determinantsof socialresponsibilityarefactorssuch asconcentration, capitalintensity, sizeofcompany, number ofshareholdersand size of industryasthe influencing factorsofcorporatesocialresponsibilitywas elected. In additiontoothervariablestoexplainfinancial performance, theriskvariable as an adjustment variable was entered intothe model.
Figure 1shows aconceptual modelof research.

Figure 1: Conceptualmodel



In order to collect data for testing research hypotheses, related secondary data for components concentration (Herfindahl-Hirschman Index), Capital intensity (the amount of used capital), firm size (number of employees), number of shareholders, industry size (number of industry employees), financial performance (rate of return on assets) and the risk (debt ratio) have gathered and a questionnaire contained 24 questions designed to measure social responsibility. Community of survey is 294 companies and questionnaire were sent to 206 companies via fax, and after 15 days 42 usable questionnaires were returned. Data estimates for multiple regression was used in two stages.

FINDINGS

According to that in this study, the questionnaire used for collecting some data, must ensure the validity of the research questionnaire. The most common way to validate multiple choice questions of the present is Cronbach's alpha. It was calculated for the study 0.781. The reliability of the questionnaire showed acceptable.

Table 3: Reliability coefficient for questionnaire

Cronbach's alpha	Number of questions
0.781	27

In first step regression parameters associated with social responsibility was considered as independent variables and social responsibility was considered dependent variable.According to Watson test and SIG obtained from ANOVA analysis and tolerance (Table 4) linearity assumptions between variables to be confirmed. Therefore, interpretation of results and regression analysis is possible. Results of regression analysis are presented in Table 4.

The obtained regression investigated the effect of five factors of determinants of social responsibility on social responsibility level. Considering the model R ^ 2 = 0.892 and F=59.327 at the significant level 0/000 can be claimed that the five identified factors have significant influence and high explanatory on social responsibility. So 0.892 of social responsibility variation can be explained by variables entered in the model.

Also according to the Beta standards and obtained Sig the following results for each of these factors can be expressed.

1 – Concentration with -0.537 Beta factor having a negative impact on social responsibility. In other words, a unit increasing in the concentration reduces 53% of social responsibility.

2 - Capital intensity has a positive impact on social responsibility. This claim, according to the significance level, can be statistically confirmed.

3. Size of company with 0.43 Beta factor according to the significance level shows that a unit increase in the size of the company increased 43% the amount of social responsibility.

4 – According to the significance level which obtained above the 0.05 for a variable number of shareholders, this variable has no significant effect on the amount of social responsibility.

5 - The industry size has a positive impact on social responsibility. This claim, according to the significance level, can be statistically confirmed.

In the second stage of regression risk of organization and social responsibility were considered as the dependent variables and financial performance as independent variable. According to statistics obtained from Watson test Sig obtained from ANOVA analysis of tolerance (Table 5) errors independence and linearity assumptions between variables to be confirmed.Therefore, interpretation of results and regression analysis is possible. The results of the second regression analysis are presented in Table 5. The obtained regression dedicated to investigate the effects of organization risk and social responsibility factors on financial performance. Considering the model R ^ 2 = 0.785 and F=31.415 at the significant level 0.000 can be claimed that identified two factors have significant influence and high explanatory on financial performance. The 0.785 of changes in financial performance can be explained by the variables entered in the model. Also according to the standardized Beta

and significance level obtained for each of these factors results in the following expression.

1 - The social responsibility with explanatory level 0.5 for independent variables which have the highest impact which is significant on the confidence level of 0.000.

2 - Risk of organizations with 0.373 explanatory for financial performance has significant influence on the confidence level of 0.005.

Tolerance	Signification level	T	Standard Error	Standardized Beta	
0.59	0.00	-6.852	10.346	-0.537	Centralization
0.825	0.00	5.796	0/000	0.35	Capital Intensity
0.836	0.00	7.169	0.00	0.43	Size of company
0.524	0.87	0.165	0.254	0.013	Number of shareholders
0.76	0.008	2.786	0.00	0.173	Size of Industry
0.892					Multiple Coefficient of Determination
0.877					Modified Multiple Coefficient of Determination
0.1108					Estimation Standard Error
59.327					Value of F
0.00					Signification level
2.385					Durbin-Watson
2.971					Constant Value

Table 4: Regression analysis for social responsibility

Table 5: Results of regression analysis for financial performance

Tolerance	Signification level	T	Standard Error	Standardized Beta	Variable
0.627	0.000	3.993	0.017	0.5	Social Responsibility
0.627	0/005	2.98	0.058	0.373	Organization Risk
0.785					Multiple Coefficient of Determination
0.617					Modified Multiple Coefficient of Determination
0.0274					Estimation Standard Error
31.415					Value of F
0.000					Signification level
0.033					Durbin-Watson
-0.195					Constant Value

CONCLUSION

As previously discussed in this study the determinants of social responsibility and their impact on the financial performance has identified. The results achieved signaled a significant impact of the selected variables on social responsibility and social responsibility and organization's risk on the financial performance.

Results showed that the concentration has a negative impact and capital intensity and the size of industry have positive impact on social responsibility. It seems that the more industry and the market competitiveness of existing industries propel from exclusive towards competitive mode, companies in these industries are more willing to participate in Social Affairs, which are the cause of this issue can be found in the hope of gaining a competitive advantage.

Results obtained about the concentration effect, confirmed all raised issues in the industrial organization approach regarding the relationship between the level of competition (which is the reverse mode of concentration) and social responsibility. Although this result aligned with comments (Campbell) (2007) regarding the competition which says that in environments with high competition corporate are more eager to do activities related to social responsibility.

Also companies with high capital used up are more active in matters related to social tasks because of raising factor of security and ensure the continuation of its presence in the arena of competition. The results also showed that companies with large size have more partnership in the social issues. Perhaps the reason could be codified in laws and regulations exist for these companies which are usually more severe than the existing regulation for smaller companies. The results of reviewing the impact of company's size on the social responsibility which showed that there is a positive and meaningful impact of company's size on social responsibility is also confirms this argument.

Results obtained in connection with capital intensity and size of the industry confirmed arguments in content of industrial organization approach. Also the results which are associated with size of the company are aligned with those provided by (Zu and Song) (2008) and (Hsiang-Lin, et al) (2005) and confirm these findings.

In connection with determinants of social responsibility the results showed that the number of shareholders has no impact on social responsibility. This finding contrast with what we know in stakeholder management perspective. It seems that the lack of involvement of stakeholders and their weak role in management of the organizations caused this conflict between obtained results and history.Financial performance of each company is the result of purposeful activities that are performed in order to gain economic profit. Usually companies with high financial performance find well-known channels to gain profits and investing in there. So these results show that social responsibility has a significant impact on financial performance. These findings are aligned with Schaltegger&Figge (2000), Heal (2005), Kong et al (2002), Hansen (2004), Epstein & Roy (2001) and Manuela Weber (2008) findings and confirm them.

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